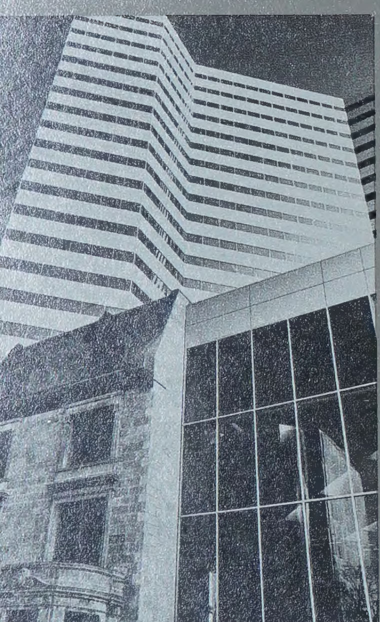
Annual Report 1982

The Mercantile Bank of Canada

Contents

1 Financial Highlights
2 To Our Shareholders
4 Mercantile Term Deposits Triple in 1982
6 Credit Management at the Mercantile
11 The Mercantile's Year in Review
21 Financial Statements
37 Twenty-Ninth Annual Meeting of the Shareholders
38 Board of Directors
39 Executive Officers
40 Offices of the Bank



This is Place Mercantile, the bank's new head office complex in downtown Montreal. This project is one of the first commercial developments in Montreal to combine historical architecture with a high rise tower. One of the four greystone houses serves as a private entrance to the Mercantile's Montreal branch.

Vous pouvez vous procurer la version française de ce rapport à l'adresse suivante:
Affaires publiques
La Banque Mercantile du Canada
C.P. 520, Succ. postale "A"
Montréal (Québec)
Canada
H3C 2T6

Financial Highlights
(thousands of dollars)

	1982	1981
Total Loans	**$3,272,034**	$2,918,993
Total Assets	**4,337,932**	4,014,234
Total Deposits	**3,805,787**	3,543,809
Capital, Reserves and Debentures	**220,958**	193,325
Net Income for the year	**15,467**	28,280
Net Income per common share	**$ 1.93**	$ 3.54
Average number of common shares outstanding throughout the year	**8,000,000**	8,000,000

To Our Shareholders

For many years people from all segments of society have been demanding that inflation be dealt with. There is a broad consensus that inflation ultimately destroys jobs and wealth.

1982 marked a turning point in North American governments' attempts to deal with inflation. This beginning was managed largely through control of the growth in money supply. This effort produced extraordinary fluctuations in interest rates, and generally high interest rates. The North American economies entered into a recession, and recovery has been slow to develop.

The reduction in inflation has been painful. Many companies have not survived. Surviving companies are taking extraordinary measures to keep alive. Unemployment has reached levels not experienced since the 1930's.

This recession has hurt the Mercantile Bank. As a money market based bank, one that gets most of its funds at money market rates, the high and quickly changing interest rates have sharply reduced the margin between what we pay for money, and what we get for our loans.

Our clients have been particularly hurt by the recession. The majority of our borrowing clients are medium sized companies whose business had been structured for growth. A significant portion of our loans are extended to the real estate industry, which was prospering in an inflationary climate. Our clients' difficulties have resulted in an increase in provisions for bad debts and a significant cost to us of carrying "non-performing loans", loans for which we are not receiving interest.

As we start the new year, it is difficult to project how we will perform in 1983. We do have a "plan" or budget. This plan predicts interest rates will generally be falling throughout the year, while the economies of the U.S. and Canada will be slow to recover. Recovery in the U.S. is expected to be sooner than in Canada. Loan demand will be weak in Canada, but more robust in the United States.

The lower interest rates will reduce the strain on our borrowing clients. Hopefully, our loan loss provision in 1983 will not exceed 1982's experience. The cost to us of carrying non-performing loans will be lower. We expect the level of these loans to start coming down by mid-year, but the average outstanding for all of 1983 may well exceed the average level we had in 1982.

Our number one priority in 1983 is to help our clients in difficult circumstances to work down their debts. Our next priority is to tightly control our expenses so as to arrest the deteriorating ratio of our expenses to assets and revenues. Finally, we are continuing to develop our longer term strategic plan so we will be able to better ensure our competitive ability into the future.

Robert L. Davidson, Chairman, President and Chief Executive officer, in the Atrium of Place Mercantile.

This past year was not good for the Mercantile. We shared in the country's cost of reigning in inflation. We still believe inflation is the greatest danger to our society, and we are prepared to pay our dues. We would hate to see those dues paid in vain. This would be the case if governments decide they must restimulate their economies to relieve the pain of unemployment. Over stimulation would increase the threat of inflation and ultimately bring more severe unemployment problems.

We believe that lower levels of inflation are possible in the near term if the governments can persevere in their present efforts. Long term success, in our opinion, will only be possible with significant change in attitudes towards the role of the market place in our economies.

Robert L. Davidson
Chairman, President and Chief Executive Officer

Mercantile Term Deposits Triple in 1982

The Mercantile Bank has achieved significant success in raising retail term deposits since launching a modest marketing effort in the summer of 1981.

Since we are now well into our second year of the program, we thought we might step back and take a look at our success to date, our current marketing strategy and our future plans.

The bank made public it's corporate commitment to the program, when the chairman told shareholders in last year's annual report, "In 1981 we took the first step in launching a campaign to attract retail depositors...our success to date has resulted in a decision to make a full-fledged commitment to a limited form of retail banking."

At the end of fiscal 1982, the bank's retail term deposit liabilities had tripled from a year earlier and stood at $155 million.

Why has a bank whose business is specifically with the corporate borrower decided to embark upon a retail program?

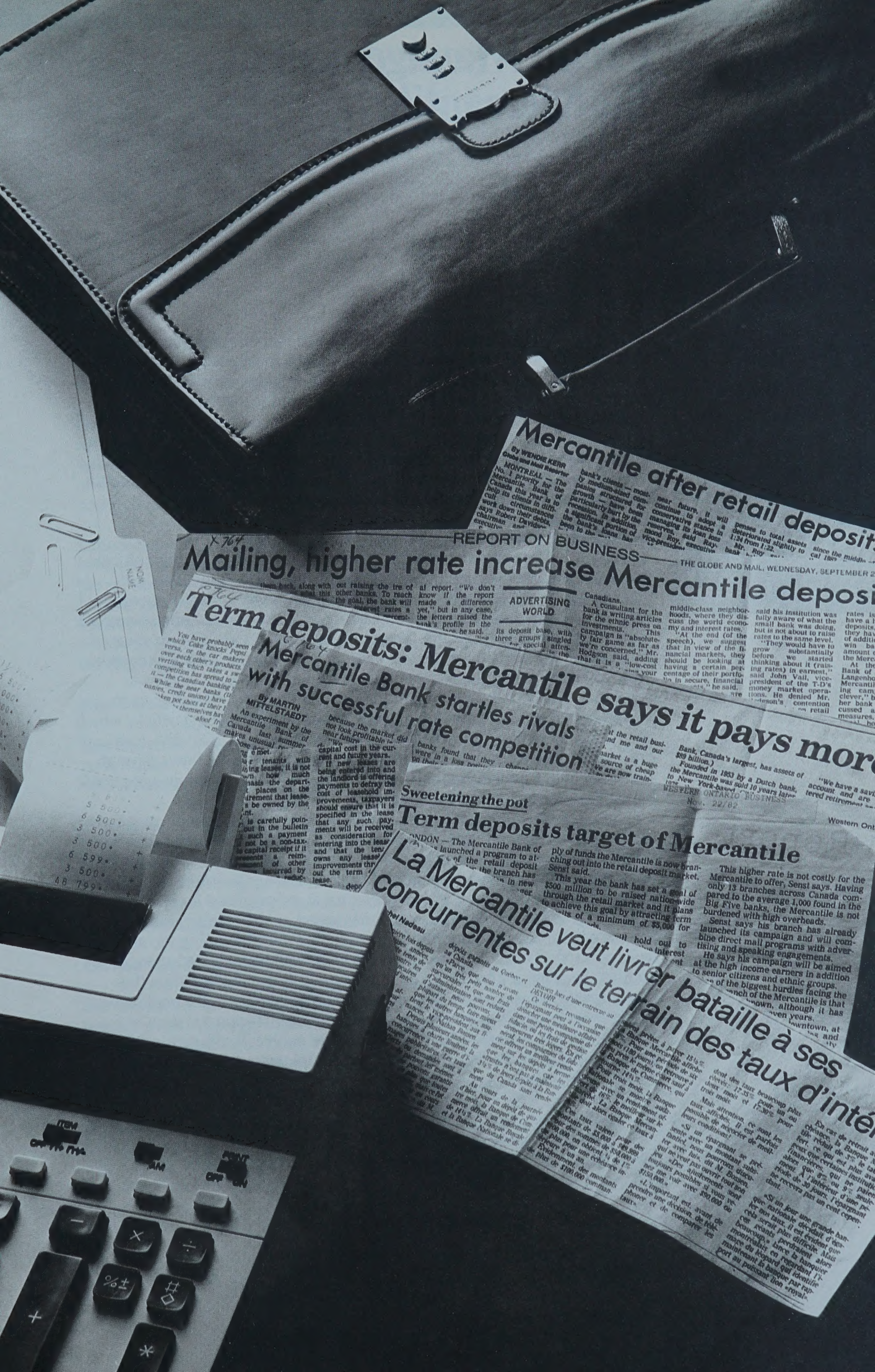
Although the Mercantile's orientation in the marketplace is corporate rather than retail, we see definite advantages in engaging in this important activity. Being a money market bank, the Mercantile, until recently, has relied almost exclusively on institutional sources of funds. We have diversified our source of funding by acquiring a strong retail deposit base. The retail funds have allowed us to achieve a greater stability in funding our loan portfolio and at a cheaper cost.

The positioning statement we have adopted for the program is: "The Mercantile Bank, We pay you more!"

Our commitment to depositors is to pay a higher rate of interest on average than any of the big five banks. Our objective is to be the most cost efficient gatherer of retail deposits in the market, and, in due course, we expect to be able to fund 10–15 percent of our loan portfolio from retail sources. Development of this product receives high priority within the bank's corporate strategy. We are constantly seeking new means through which we can more effectively serve the market.

The marketing of this program is both innovative and aggressive. In the first year, the program attracted much attention in the media because of its aggressive positioning.

To date the results of our marketing strategy have been gratifying. Branch staff are enthusiastic and positive about the program. We look forward to its continued success.


Mercantile after retail deposit
REPORT ON BUSINESS
Mailing, higher rate increase Mercantile deposi
ADVERTISING WORLD
Term deposits: Mercantile says it pays mor
Mercantile Bank startles rivals with successful rate competition
Sweetening the pot
Term deposits target of Mercantile
La Mercantile veut livrer bataille à ses concurrentes sur le terrain des taux d'intér

Credit Management at the Mercantile

Buffetted by increasingly volatile capital markets and a very serious and protracted world recession, 1982 has proven to be one of the most difficult years on record for the Canadian and world economies. As financial intermediaries, we have been directly affected by this economic environment. As a result, our levels of non-current loans and loan write-off provisions have risen sharply. This section of the Annual Report is directed towards providing a better understanding of the credit management practices of the bank. This review will include an overview of the bank's credit structure, lending policies and asset management practices.

Lending Structure

The bank's operations are essentially based on geographical lines with branches located in every major centre in Canada along with three centres in the United States. Additionally, the bank has an energy office in Calgary and an international office in Toronto. Our larger branches are divided into lending teams. These groups tend to specialize in areas of particular opportunity or dominance within their market. This approach has been adopted in order to provide better customer service, as well as to develop a clearer understanding of the opportunities and related risks involved in that area. All lending units report through divisional offices which are staffed by senior credit officers. There are three Canadian divisions and one United States division. Credit beyond divisional levels flows through the credit policy area in head office with exceptional transactions approved by the bank's executive committee.

Delegation of decision making authority is an important part of the bank's credit process. The bank has followed a continuing strategy of decentralizing its credit decision making process to the field within limits large enough to provide meaningful decision making flexibility, while at the same time maintaining adequate control at a centralized level. Given this decentralized approach, the bank has relied on the credit committee system which requires a quorum of any lending unit, including the unit head, to support any credit decision. No credit can be extended at any level without the support of the booking unit's credit committee. Within this context, individual approval authorities are granted only to the bank's most experienced and proven lending officers. The size of approval limit is determined by experience levels of the individual credit officers and their credit committees, as well as the size and complexity of the markets and portfolios involved.

Lending Policies

Published credit policies serve as a necessary form of control device to ensure loans within field approval limits fall within parameters judged acceptable by senior credit management. These policies are based on historical analysis of the loan portfolio and experience of senior management. Loans outside policy guidelines are judged to have certain risks which depart from normal lending patterns and require a much higher level of approval authority. Credit policies are developed through the credit policy department and are approved by the bank's executive committee.

The bank has established specialized credit policies for two industries: real estate and oil and gas. These industry specific policies have been established in recognition of i) substantial real estate loan volumes, ii) the specialized and somewhat technical nature of lending involved. Policies in these areas are designed to provide lending officers with an experience tested framework within which the majority of loan structures fall. Credits which do not meet these guidelines are considered policy loans. The essential criteria of these policies are:

Real Estate Policy

The bank limits its real estate lending to project financing. Lending criteria are intended to ensure there is minimal risk of non-performance by the developer and that if for some reason the developer does not perform, bank advances are not at undue risk.

According to policy, security should consist of first mortgage security and assignments of income and sponsor guarantees. Adequate pre-sale or pre-leasing criteria should be met as a pre-condition in order to establish marketability and projected economics. In order to protect against unforeseen project slippage, the bank generally requires the developer to have acceptable non-project cash flows or unencumbered assets that can be accessed to support loan repayment.

Oil and Gas Policy

The basic objective of the criteria is to ensure there is a healthy margin of cash flow over and above that required to repay the principal plus interest on any production lending situation. The bank considers only proven reserves and multi-well fields for lending purposes. Shut-in reserves can qualify for lending value but only to a minimal degree. To date the bank's oil and gas lending activities against non-producing reserves are negligible. Oil and gas policy guidelines stipulate that security should include an assignment of the oil and gas interests supporting the loan. In addition purchase contracts are to be acknowledged and assigned to the bank if available. The bank requires a professional in-house petroleum engineer to support each credit request.

International Policy

The bank has not actively sought business in this area for several years. The bank's involvement is limited to governments, government agencies or corporations, banks and major utilities.

Credit Process Controls

In addition to the above mentioned credit policies, the credit process incorporates several procedures and controls which are designed to maintain acceptable portfolio quality. Briefly these include:

1. Annual Reviews As is common within the banking industry, each borrowing account must be reviewed at least annually. Emphasis is placed on reviewing the borrower's past year performance in relation to projections. Budgets for the coming year are analyzed in detail and areas of new and previously examined risk are discussed.

2. Irregular advance return This is a monthly return generated by each branch which circulates to all levels of the credit process. It outlines any overdue annual reviews, overdrawn accounts and incomplete security documentation along with an anticipated remedy date.

3. Loan classification system The bank has a three level system of adversely classifying its credit risk. In ascending order of seriousness these levels are labelled especially mentioned, substandard and doubtful. All non-current loans must be classified as doubtful. While bank management's judgement is an important factor in arriving at this classification, the process is automatic where interest has not been paid in accordance with the loan agreement for 90 days or more, or where the bank has taken realization proceedings.

A loan can be classified by any level of credit approval as well as the bank's internal inspection department.

Once classified, a loan must be reviewed at least quarterly with each review to include a status update plus recommended remedial action. This process is particularly useful in ensuring that problem loans are spotted early and dealt with on an ongoing basis.

4. Portfolio information system The bank's portfolio is monitored from a macro viewpoint by the credit policy department. Several detailed reports are produced at regular intervals which allow determination of unfavorable trends or concentrations. These reviews include such areas as the bank's classified loans, real estate portfolio, larger exposures and international credit.

5. Internal inspection Each area of the bank is audited at least annually by the bank's internal audit department to ensure that credit policies and procedures are adhered to and that no unauthorized activity has occurred. In addition, inspectors scrutinize the branches loan portfolios and report on their quality to senior management. Adverse classification of loans may be made. A portfolio quality rating is issued with each audit.

Asset Management

The bank has not been in an active loan generation mode for the past two years in response to our concerns over the increased instabilities of the markets in which we were dealing. Volatile interest rates made it increasingly difficult to evaluate the merits of lending propositions. Inflationary biases dominated many investment decisions, making it very difficult for lenders to assess real economic merit. Traditional long term sources of capital ceased to be readily available. Dominant industry segments and 'undoubted' companies began experiencing difficulty. As a consequence of these developments, the bank placed priority on diversifying and upgrading its existing loan portfolio.

The bank has traditionally operated in the corporate middle market with the majority of its loans over $5 million and, as such, has been faced with a house limit concept for much of this period. Historically our house limit served as a guideline and was pegged as a percentage of the bank's capital. Within the past two years we have fixed this house limit as an absolute cap on any new exposures. The house limit is now fixed at an absolute dollar level. During this period we have successfully managed down many of our existing loans without client disruption in order to conform to our policy. This house limit figure is well within the inspector general's guidelines.

In determining exposures, the bank uses the term in its broadest sense. Essentially, all loans to the parent company and controlled subsidiaries are included, except in very special circumstances where the companies are clearly self-managed and have independent cash flows. In cases where affiliated companies provide guarantees, all loans are grouped.

As a consequence of the bank's more conservative approach, we did not participate in any takeover financings. Nor did we generate oil and gas loans based on what now appears to be unachievable energy prices. International lending was not pursued.

Real estate lending excepted, the bank has no large concentrations in any one area of lending. With respect to real estate, the bank has developed a considerable degree of expertise and comfort in this area. Over time we have allowed this area to approach 30% of our overall loan portfolio. As discussed earlier, in order to protect itself, the bank has established firm lending criteria and a detailed information system to ensure adequate diversification. As further protection, the bank limits its participation in any one project financing to a percentage of its internal house limit. Historically the bank's repayment record in real estate lending has been excellent. While sound underwriting criteria have contributed, the effects of protracted inflation in real estate prices cannot be ignored. A decline in real estate values combined with general levels of overbuilding and high

real interest rates has left this industry sector very illiquid and sluggish. As a consequence, we have experienced a substantial increase in credit problems in this area. A disproportionate percentage of our non performing loans are in our real estate portfolio. While lower interest rates should prove to eventually be very beneficial, a basic economic recovery is an essential prerequisite for major improvement. By adhering to strict project lending criteria, we consider our real estate loans to be basically well secured and ultimately collectible.

Looking into 1983, it is difficult to see any clear economic trend emerging. We foresee no change in our approach to credit extension until such time as a meaningful and sustainable recovery is clearly under way.

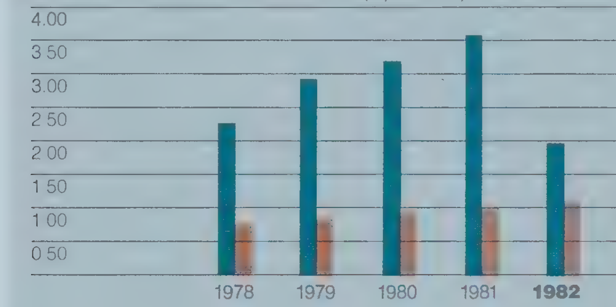
The Mercantile's Year in Review


SELECT

The Mercantile's Year in Review

Net income
Consolidated net income for fiscal 1982 was $15.5MM, a reduction of 45% from the 1981 level. On a per share basis, 1982 earnings declined to $1.93 from $3.54 the year before. The sharp decline of profits from last year's record levels results primarily from reduced spreads, higher loan losses and a continued increase in the level of non-productive loans. Dividends per share remain at 27 cents per quarter since the fourth quarter of fiscal 1981.

Net income and Dividends ($ per share)



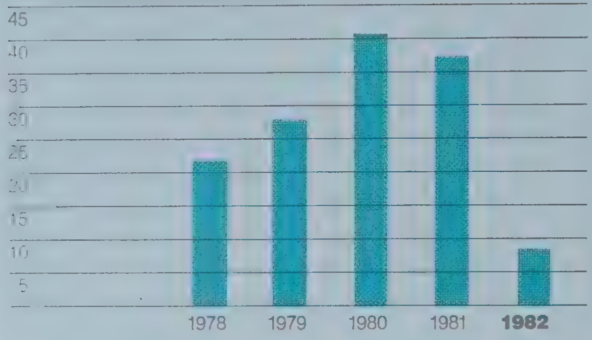
	1978	1979	1980	1981	**1982**
Net income per share	2.26	2.89	3.15	3.54	**1.93**
Dividends per share	0.75	0.82	0.90	0.99	**1.08**
Average shares outstanding (000)	8,000	8,000	8,000	8,000	**8,000**

As can be seen from Chart 2, the Bank's net income before taxes fell from $37.2MM in fiscal 1981 to $8.2MM in fiscal 1982. This disappointing performance reflects not only the factors mentioned above but also certain characteristic features of the Bank such as a relatively higher degree of concentration on medium size companies, a larger percentage of assets on a floating-rate basis and a high proportion of funds which come from money market sources.

The impact of lower net income before taxes was cushioned by a favourable variance in the Bank's overall tax position. For fiscal 1982, taxes actually contributed $7.3MM to earnings. During 1981, they represented a cost of $8.9MM. A substantial portion of the improvement reflects our efforts to reduce foreign withholding taxes as the 1982 figure of $4.0MM was reduced from $12.9MM the previous year. The tax provision for 1982 includes a net provision of $11.3MM in deferred tax

2

Net income before taxes ($ millions)



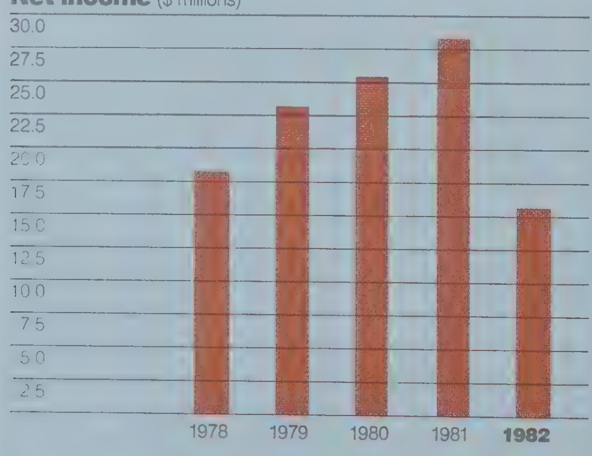
	1978	1979	1980	1981	1982
Net income before taxes	21.941	27.791	40.494	37.178	**8.210**
Taxes	3.846	4.647	15.276	8.898	**(7.257)**
Effective tax rate (%)	17.5	16.7	37.7	23.9	**(88.4)**

credits in recognition of both timing differences and losses carried forward for tax purposes.

Chart 3 shows the consolidated net income for the five years ended October 31, 1982 as restated under the Bank Act of 1980. The reduction of $12.8MM during 1982 represents our first report to shareholders of a decline in net income in the last ten years.

3

Net income ($ millions)



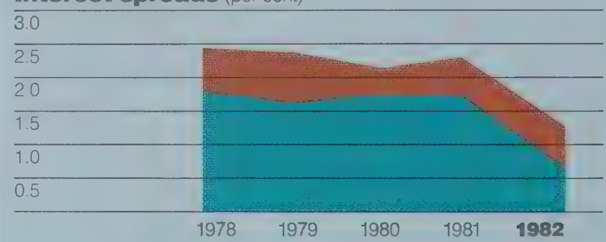
	1978	1979	1980	1981	1982
Net income	18.105	23.144	25.218	28.280	**15.467**

Net interest income

In 1982, net interest income contributed $54.4MM towards the Bank's net income, 24% less than in 1981. The deterioration is clearly attributable to squeezed interest spreads and higher volumes of non-current loans. Chart 4 shows the impact of these two factors on the adjusted spread of the Bank's assets. The adjusted spread is the actual spread grossed-up for the effect of income received from tax-free securities and which excludes the impact of security trading. During fiscal 1982, the adjusted spread – or the "grossed-up spread" – declined to 1.34% from 2.27% the year before.

Here is a more detailed breakdown of the major variances of net interest income during 1982.

Interest spreads (per cent) 4



	1978	1979	1980	1981	1982
Canadian prime	9.15	12.32	14.09	19.08	**16.56**
90 day canadian deposit rate	8.31	11.50	12.65	18.08	**14.74**
U.S. prime	8.64	12.28	14.84	19.53	**15.54**
EURO – U.S. dollar deposits 3 months	8.28	11.76	13.58	17.80	**13.73**

Prime Rate-Average Cost of Funds
(on large term deposits)

Most of the Bank's loans are priced under a floating rate formula. The profitability of these loans varies according to short term interest rate fluctuations. During fiscal 1982, contrary to the previous year, interest rates declined sharply. For example, the Canadian prime rate was reduced from 20% to 13¾%. Each decline in the prime rate caused a full and immediate impact on revenues of related assets. The cost of large term deposits used to fund such assets declined only gradually as maturities were rolled over at lower interest rate levels.

As a result, the funding spreads were squeezed severely for both the Canadian and the U.S. dollar activities. During 1982, the compression of the margin between the prime rate and the average cost of money market instruments has reduced the Bank's net interest income by slightly more than $20MM.

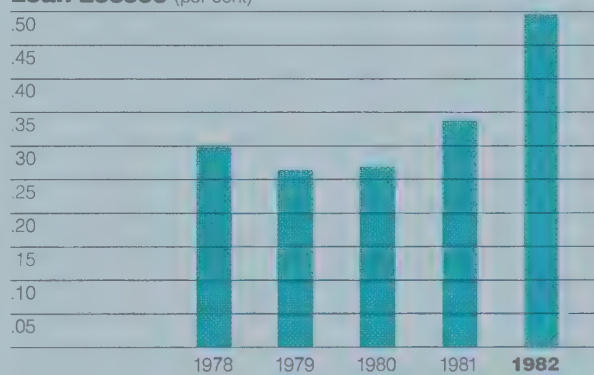
Other Finance Division Initiatives
Throughout the year, the Bank undertook a number of measures to protect itself against squeezed spreads and to find alternative sources of revenues. First, on the funding side, efforts were made to improve our direct relationships with depositors and to establish new lines of credit. The fund sources diversification program was particularly successful in our U.S. dollar operations. For example, the importance of the InterBank Eurodollar Market as the principal source has diminished gradually. At year end, corporations both in Canada and the United States provided the Bank with 21% of its U.S. dollar requirements compared to 13% at the end of 1981. In the second half of the year, the Bank entered the financial futures market as a hedge against rapidly declining rates. The result was a gain of $2.7MM. In the Bank's trading account, a total of $3.0MM was produced in 1982 compared to a loss of $4.4MM in the previous year. The cost of carrying primary and secondary reserve requirements was also reduced by more than $2MM during 1982.

Finally, an aggressive campaign for retail deposits continued to reduce the Bank's dependence on wholesale sources of funds. At the end of fiscal 1982, such deposits, which include those by individuals and small corporations, amounted to $155MM, about a threefold increase during the year. The Bank will continue to take advantage of relatively lower non-interest expenses for retail funds in order to provide its clients with attractive rates.

Interest Sensitive Assets
During fiscal 1982, interest sensitive assets averaged $4.1MMM, an increase of 9% over 1981. Most of the growth is due to our loan portfolio which will be reviewed later. Asset growth during 1982 has contributed about $8MM to interest income.

Non-Current Loans
The growing volume of non-current loans also had a substantial impact on the Bank's earnings. Most non-current loans are loans where the borrower has not paid interest in accordance with the loan agreement for 90 days or more. Given the persistent recession in 1982, several of our clients experienced liquidity problems and were unable to make interest payments. In some cases, even the sums collected were not booked directly into earnings. Whenever reserves for losses had already been established for specific loans, interest collected on such loans was first applied against the principal. In 1982, non-current loans are responsible for a reduction of about $19MM in interest income over the previous year. Past experience suggests that a large portion of these loans should eventually be restored to full productive status.

Loan Losses (per cent)



	1978	1979	1980	1981	1982
Five year average loss ratio	.2948	.2623	.2663	.3364	**.4963**
($ thousands)					
Provision for loan losses	4,977	6,021	7,385	9,122	**15,333**
Loan loss experience	6,404	3,237	6,183	16,776	**30,649**
Increase/(decrease) to appropriation for contingencies	(1,427)	2,784	1,202	(7,654)	**(15,316)**

Provision for loan losses
In fiscal 1982, the Bank's loan loss experience rose to $30.6MM compared to $16.8MM the previous year. The loan loss experience is the sum of net loan write-offs plus the net increase in the specific reserves made for those loans which management believes may involve a future write-off. During 1982, because of the sharp rise in the volume of non current loans, we felt it prudent to build up specific reserves even with rapid decline of interest rates.

The momentum of the recession is such that no significant and sustained improvement of the economy is anticipated in the near future. The Bank will thereby continue to adopt a conservative stance in the management of reserves for possible loan losses.

For fiscal 1982, the Bank's provision for loan losses, or the amount that was actually charged to income, rose to $15.3MM, an increase of 68% over 1981. Such a figure is based on a ratio relating actual loan loss experience to year-end loan balances over a five-year period.

The difference between the loan loss experience for a year and the loan loss provision included in the Consolidated Statement of Income is reported in the Consolidated Statement of Appropriations for Contingencies.

Other income

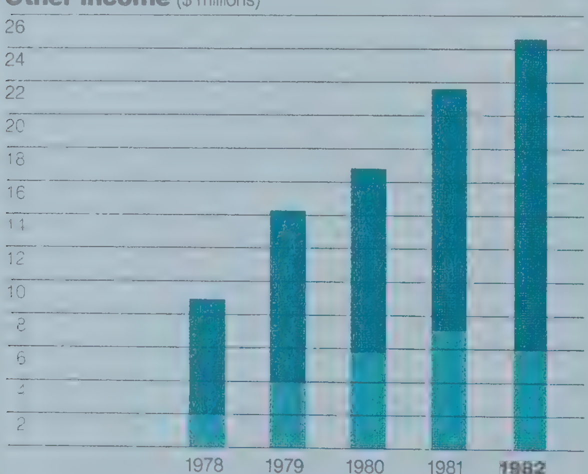
Other income amounted to $24.5MM in fiscal 1982, a satisfactory increase of 14% over 1981 considering general business conditions and slow asset growth.

Foreign exchange earnings declined by 15% to $6.2MM in 1982. Trading operations contributed $4.6MM of this amount, a reduction of $1.3MM over the previous record year. The balance of $1.6MM was realized from the servicing of foreign exchange needs of our clients.

Total fees and commissions rose by $4MM to $18.3MM in 1982. A positive variance of $3.1MM was registered in commissions and fees not related to loans. Revenues from letters of credit and bankers' acceptances showed particularly strong increases.

6

Other income ($ millions)



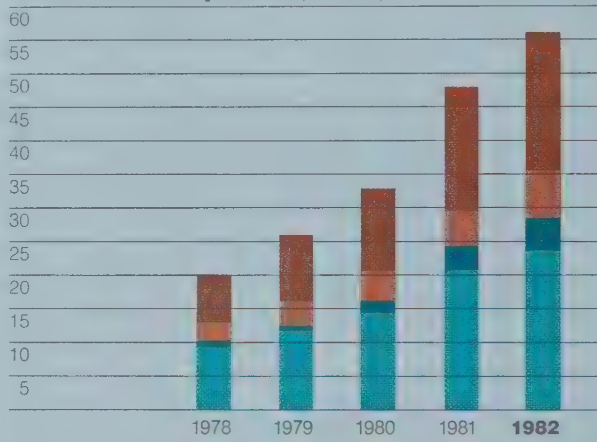
	1978	1979	1980	1981	1982
Foreign exchange	2.076	4.023	5.886	7.238	**6.181**
Fees & commissions	6.632	10.189	10.569	14.289	**18.276**
Total	8.708	14.212	16.455	21.527	**24.457**

Non-interest expenses

During 1982, non-interest expenses rose to $55.4MM, an increase of $8.1MM above the 1981 level. Chart 7 highlights the key components of those expenses for the last five years. The 17% growth during 1982 represents a marked deceleration from the 27% five-year growth rate. However, because of a relatively slow asset growth during the year, the ratio of operating expenses vis-à-vis total assets deteriorated slightly, passing from 1.22% in 1981 to 1.24% in 1982.

7

Non-interest expenses ($ millions)



	1978	1979	1980	1981	1982
Salaries	9.325	12.313	14.877	21.012	**23.651**
Pension & other staff benefits	749	595	2.171	3.646	**4.374**
Premises & equipment	3.098	3.467	4.467	5.622	**7.328**
Other	6.827	9.177	11.111	16.986	**19.997**
Total	19.999	25.552	32.626	47.266	**55.350**
Branches & representative offices	16	19	19	18	**17**
Employees (as at year-end)	641	737	863	949	**896**

Staff payments represent one half of total non-interest expenses. During 1982, they rose 14% to $28MM. The average number of employees stood at 935, compared to 924 the year before. However, a strict control imposed on the hiring of new staff resulted in a net decline of 53 people year-end over year-end.

Premises and equipment expenses rose by $1.7MM during 1982 to $7.3MM. More than one half of the increase is due to higher rent paid and depreciation on leasehold improvements. These variances primarily reflect our expansion into the U.S. market and the relocation or modernization of some of our Canadian branches. Premises and equipment expenses are expected to show another significant increase in fiscal 1983, as we will move into Place Mercantile, our new headquarters in Montreal.

Other expenses rose 18% during fiscal 1982 to $20MM. The main variances came from capital taxes, telecommunications, management consulting fees and legal fees.

It is the management's view that the Bank can now benefit from the infrastructure it has built over the past several years. Significant growth in assets should be possible without a meaningful impact on non-interest expenses. A series of measures have been taken to improve productivity in all areas of the Bank. For fiscal 1983, the Bank plans to experience little, if any, growth in non-interest and non-premises expenses.

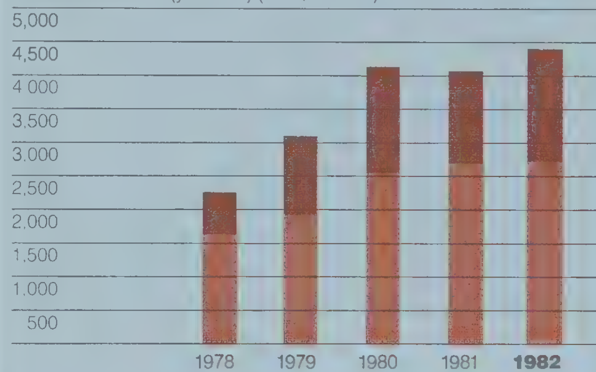
Asset growth

On October 31, 1982, total assets stood at $4.3MMM, an increase of 8% over the previous fiscal year-end. As can be seen on Chart 8, practically all the growth took place in foreign currency assets reflecting, in particular, the successful launching of our U.S. subsidiary, MBC Financial Services Corporation.

At the end of fiscal 1982, cash resources amounted to $348MM or 8% of total assets. Securities stood at $491MM, or 11% of the Bank's assets. While cash resources and securities declined by $32MM and $54MM respectively during 1982, total loans rose by $353MM to $3.3MMM. At the end of the year, loans represented 75% of the Bank's total assets. Finally, other assets rose by $57MM during the year, mostly as a result of increased activity in acceptances.

Asset growth has been negative since the third quarter of fiscal 1982. The rapid decline of interest rates has yet to be translated into stronger loan demand. Business inventories have been reduced. Capital spending remains weak. The revival of the stock and bond markets has permitted some restructuring of the corporate balance sheet. Accordingly, we do not expect a significant increase in loan demand over the next few months.

Total assets (year end) (cdn.$ millions) 8

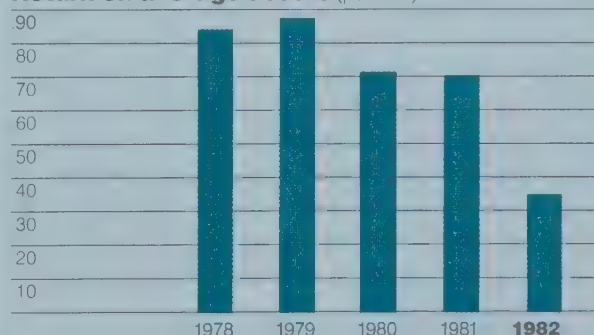


	1978	1979	1980	1981	1982
Canadian dollar	1,687.3	1,906.0	2,555.4	2,695.4	**2,733.8**
Foreign currency	594.5	1,146.5	1,519.3	1,318.8	**1,604.1**
Total	2,281.8	3,052.5	4,074.7	4,014.2	**4,337.9**

Return on average assets

The modest growth of our assets during 1982 combined with the large decline of earnings had a substantial impact on our Return on Total Average Assets. For fiscal 1982, the Bank's earnings per $100 of assets were 35¢ compared to 70¢ the year before. Such a return is well below the standards established in previous years.

Return on average assets (per cent) 9

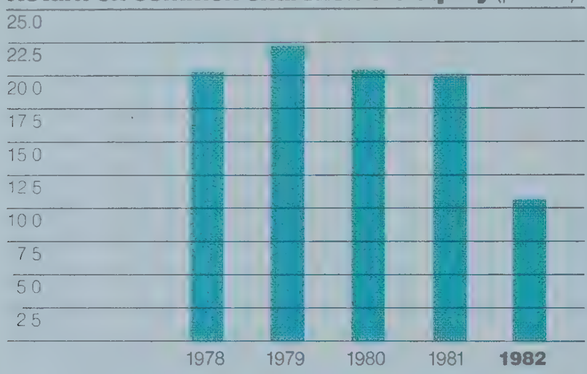


	1978	1979	1980	1981	1982
Return on average assets	0.84	0.87	0.71	0.70	**0.35**

Return on common shareholders' equity

The Bank's return on common equity also declined sharply during 1982. The figure of 10.8% for the last fiscal year is only about one half of the ratios reported in previous years. It provided our shareholders with hardly any wealth after removing the impact of inflation.

10 **Return on common shareholders equity** (per cent)



	1978	1979	1980	1981	1982
Return on common shareholders equity	20.1	22.1	20.2	19.9	**10.8**

As we start a new year, we can only express guarded optimism. There is evidence of some improvement in interest rate spreads. Further progress is being achieved on cost control. Finally, even if the volume of non-current loans has yet to show a downward trend, the cost of carrying them is reduced by lower rates.

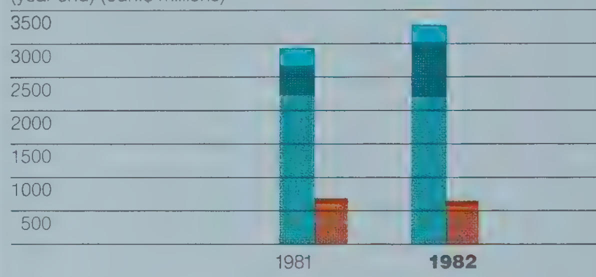
Geographic distribution of total loans and total interest income

The Bank's distribution of total loans and total interest income including dividends is based on the location of the ultimate risk. The location of the ultimate risk is defined as the location of the borrower or, if guaranteed, the guarantor.

Chart 11 shows the increasing importance of the U.S. market in our loan portfolio. During fiscal 1982, the volume of our loans to Canadian residents was very stable, while the volume of our loans to U.S. residents rose by $368MM. At the end of 1982, domestic loans represented 68% of total loans compared to 76% a year earlier. During the same period, loans to U.S. residents rose from 15% to 24% of the total portfolio. Practically all of our loans to U.S. residents represent assets of two wholly-owned subsidiaries, Mercantile Bank of Canada International N.V. and MBC Financial Services Corporation. We believe that the U.S. market will continue to provide us with better opportunities for growth and healthier profit margins.

The volume of other international operations was kept practically unchanged during the year at about $260MM. The lack of growth reflects the reluctance of the Bank's International Division to increase its portfolio in a sector of relatively high risk exposure. As a result, a very small fraction of the Bank's non-current loans is due to borrowers located outside North America.

Geographic distribution of total loans and total interest income including dividends 11
(year end) (cdn.$ millions)



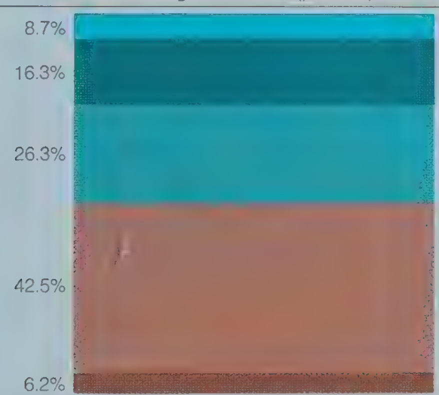
	1981	1982
Distribution of loans		
Domestic operations	2222.5	**2209.1**
United States	433.2	**801.2**
Other international operations	263.3	**261.7**
Total	2919.0	**3272.0**
Distribution of total interest income including dividends		
Domestic operations	536 7	**474.6**
United States	96.8	**120.0**
Other international	46.0	**49.3**
Total	679.5	**643.9**

At the end of fiscal 1982, loans to Canadian residents stood at $2.2MMM, almost unchanged from the previous year-end. During October 1982, those loans included $364MM in foreign currency operations compared to $406MM for the same month in 1981.

Canadian loans by sector

Chart 12 shows the Bank's Canadian dollar loan portfolio by sector. Loans to industrial and merchandising companies remain the most important category, amounting to $903MM or 43% of total activities. This proportion compares with 47% in 1981. Loans to companies in the real estate and construction sector increased by $53MM

12 **Canadian dollar loans by sector*** (per cent)



(Cdn. $ millions)	1978	1979	1980	1981	**1982**
Personal loans and mortgages	110.0	104.0	116.6	107.9	**131.3**
Industrial and merchandising	505.9	679.4	881.0	951.7	**902.6**
Real estate and construction	310.3	384.0	447.9	504.8	**557.5**
Financial institutions	268.5	328.5	497.1	259.8	**345.3**
Other loans	81.4	86.6	101.9	195.5	**184.9**
Total	1,276.1	1,582.5	2,044.5	2,019.7	**2,121.6**

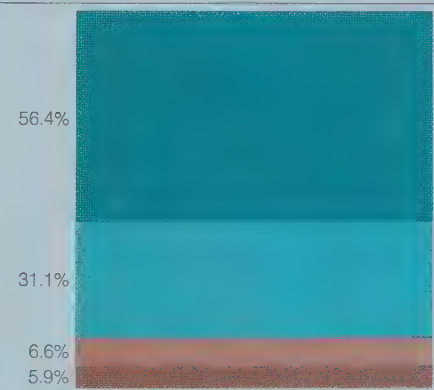
*as at September 30, 1982

to $558MM during 1982, or from 25% to 26% of the portfolio. Loans to financial institutions showed a strong increase of $86MM to $345MM and their proportion improved from 13 to 16%. Generally, the Bank's Canadian dollar loan portfolio continues to be well diversified.

Canadian loans by size

The Bank's orientation toward the middle-size companies is illustrated by the fact that 56% of our Canadian dollar loans are greater than $5MM. However, as at September 30, 1982, the volume of those loans was $177MM, or 13%, lower than the comparative figure a

Canadian dollar loans by size* (per cent) 13

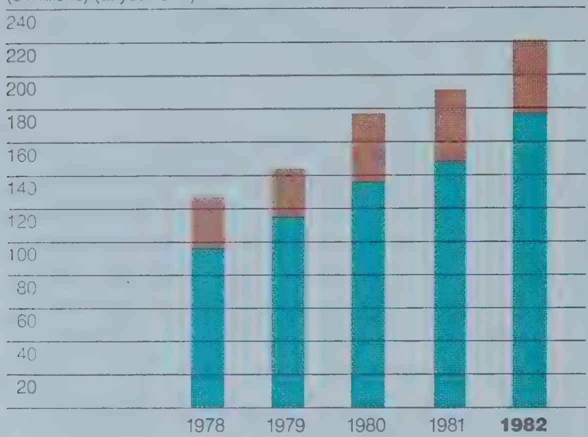


(Cdn. $ millions)	1978	1979	1980	1981	**1982**
Less than $200,000	103.9	108.9	110.9	87.2	**124.4**
$200,000 to $1,000,000	53.9	66.2	61.6	100.4	**140.3**
$1,000,000 to $5,000,000	289.6	354.8	407.9	456.9	**659.4**
Greater than $5,000,000	828.7	1,052.6	1,464.1	1,375.2	**1,197.5**
Total	1,276.1	1,582.5	2,044.5	2,019.7	**2,121.6**

*as at September 30, 1982

year earlier. Such a decline was more than offset by a $202MM increase in the category of $1MM to $5MM. These loans represent another 31% of the Canadian dollar portfolio.

14 **Subordinated Debt, Capital and Reserves**
($ millions) (at year-end)



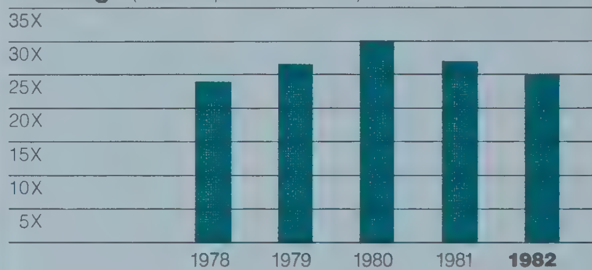
	1978	1979	1980	1981	1982
Subordinated debt					
Debentures	30.0	30.0	42.0	45.0	**45.0**
Capital and reserves					
Appropriations for contingencies	15.7	16.2	21.4	12.5	**12.2**
Preferred shares	—	—	—	—	**36.7**
Common shares	40.0	40.0	40.0	40.0	**40.0**
Contributed surplus	12.0	12.0	12.0	12.0	**12.0**
Retained earnings	27.7	46.0	62.3	83.8	**75.1**
Total capital and reserves	95.4	114.2	135.7	148.3	**176.0**
Total subordinated debt, capital and reserves	125.4	144.2	177.7	193.3	**221.0**

Subordinated debt, capital and reserves
In 1982, the Bank took advantage of the revisions to the Bank Act which permitted new ways to raise additional capital. A US$30MM preferred share issue was launched successfully in the fourth quarter. As a result, our capital structure has been diversified and more closely resembles that of the industry as a whole. At the end of fiscal 1982, the Bank's total subordinated debt, capital and reserves stood at $221MM, 14% more than the previous year-end. Since no new debentures were issued during the year, the Bank's capital and reserves were increased even more rapidly. On October 31, 1982, they amounted to $176MM, 19% higher than the year before.

Leverage (Assets/Capital and Reserves)
The growth of capital and reserves was faster than the growth of the Bank's assets, and therefore the leverage ratio was improved. At the end of fiscal 1982, the ratio of total assets to capital and reserves was 24.7 times compared to 27.1 times and 30.0 times respectively for 1981 and 1980.

The Bank's strong capital position and leverage ratio continue to provide us with a solid cushion against potential adversities. They also provide us with substantial room for additional growth. While the recession persists, we are preparing ourselves for the recovery.

Leverage (assets/capital and reserves) 15



	1978	1979	1980	1981	1982
Leverage ratio	23.9X	26.7X	30.0X	27.1X	**24.7X**

Financial Statements 1982

The Mercantile Bank of Canada

Consolidated Statement of Assets and Liabilities

As at October 31, 1982
(thousands of dollars)

Assets	1982	1981
Cash Resources		
Cash and deposits with Bank of Canada	**$ 151,348**	$ 170,391
Deposits with other banks	**196,281**	209,711
	347,629	380,102
Securities (Note 2)		
Issued or guaranteed by Canada	**208,763**	245,379
Other securities	**282,157**	299,735
	490,920	545,114
Loans		
Loans to banks	**71,218**	86,161
Mortgage loans	**98,594**	83,906
Other loans	**3,102,222**	2,748,926
	3,272,034	2,918,993
Other		
Customers' liability under acceptances	**121,751**	51,995
Land, buildings and equipment (Note 3)	**32,035**	15,076
Other assets	**73,563**	102,954
	227,349	170,025
	$4,337,932	$4,014,234

Robert L. Davidson
Chairman, President
and Chief Executive Officer

Liabilities	1982	1981
Deposits (Note 4)		
Payable on demand	**$ 68,988**	$ 81,042
Payable after notice	**5,017**	4,365
Payable on a fixed date	**3,731,782**	3,458,402
	3,805,787	3,543,809
Other		
Cheques and other items in transit, net	**87,570**	154,935
Acceptances	**121,751**	51,995
Other liabilities	**101,866**	70,170
	311,187	277,100
Subordinated Debt		
Bank debentures (Note 5)	**45,000**	45,000
	45,000	45,000
Capital and Reserves		
Appropriations for contingencies	**12,215**	12,531
Shareholders' Equity		
Capital stock (Note 6)		
Class A Preferred shares	**36,720**	—
Common shares	**40,000**	40,000
Contributed surplus	**11,950**	11,950
Retained earnings	**75,073**	83,844
	175,958	148,325
	$4,337,932	$4,014,234

Raymond M. Roy
Executive Vice President
for Chief General Manager

Consolidated Statement of Income

Year ended October 31, 1982
(thousands of dollars)

	1982	1981
Interest Income		
Income from loans, excluding leases	**$ 573,532**	$ 602,388
Income from lease financing	**3,492**	3,781
Income from securities	**50,816**	52,844
Income from deposits with banks	**16,016**	20,442
Total interest income, including dividends	**643,856**	679,455
Interest Expense		
Interest on deposits	**583,364**	601,657
Interest on bank debentures	**5,196**	5,490
Interest on liabilities other than deposits	**860**	269
Total interest expense	**589,420**	607,416
Net interest income	**54,436**	72,039
Provision for loan losses	**15,333**	9,122
Net interest income after loan loss provision	**39,103**	62,917
Other income	**24,457**	21,527
Net interest and other income	**63,560**	84,444
Non-Interest Expenses		
Salaries	**23,651**	21,012
Pension contributions and other staff benefits	**4,374**	3,646
Premises and equipment expenses, including depreciation	**7,328**	5,622
Other expenses	**19,997**	16,986
Total non-interest expenses	**55,350**	47,266
Net income before provision for income taxes	**8,210**	37,178
Provision for income taxes (Note 7)	**(7,257)**	8,898
Net income for the year	**$ 15,467**	$ 28,280
Average number of common shares outstanding	**8,000,000**	8,000,000
Net income per common share	**$ 1.93**	$ 3.54
Dividends declared	**$ 8,640**	$ 7,920
Dividends per common share	**$ 1.08**	$ 0.99

Consolidated Statement of Appropriations for Contingencies

Year ended October 31, 1982
(thousands of dollars)

	1982	1981
Balance at beginning of year (tax-paid appropriations NIL)	**$ 12,531**	$ 21,391
Deduct: net loss experience on loans	**(30,649)**	(16,776)
Add: provision for loan losses included in the Consolidated Statement of Income	**15,333**	9,122
Transfer (to) from retained earnings	**15,000**	(1,206)
Balance at end of year (including tax-paid appropriations of $14,521 in 1982 and NIL in 1981)	**$ 12,215**	$ 12,531

Consolidated Statement of Changes in Shareholders' Equity

Year ended October 31, 1982
(thousands of dollars)

	1982	1981
Capital Stock (Note 6)		
Balance at beginning of year		
Common shares	**$ 40,000**	$ 40,000
Increase during the year		
Preferred Shares	**36,720**	—
Balance at end of year	**$ 76,720**	$ 40,000
Contributed Surplus		
Balance at beginning and end of year	**$ 11,950**	$ 11,950
Retained Earnings		
Balance at beginning of year	**$ 83,844**	$ 62,349
Net income for the year	**15,467**	28,280
Dividends – common shares	**(8,640)**	(7,920)
Share issue expenses net of tax	**(598)**	—
Transfer (to) from appropriations for contingencies	**(15,000)**	1,206
Income taxes related to the above transfer	**—**	(71)
Balance at end of year	**$ 75,073**	$ 83,844

Auditors' report to the shareholders

We have examined the consolidated statement of assets and liabilities of The Mercantile Bank of Canada as at October 31, 1982 and the consolidated statements of income, appropriations for contingencies and changes in shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Bank as at October 31, 1982 and the results of its operations for the year then ended in accordance with prescribed accounting principles applied, after giving retroactive effect to the changes required by the Bank Act on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Cie

Montreal, Quebec,
December 8, 1982

Thorne Riddell

1. Significant accounting policies

The Bank Act and the related rules issued under the authority of the Minister of Finance prescribe the format of the financial statements and the significant accounting policies. The significant accounting policies are as follows:

Consolidation
The consolidated financial statements include the assets and liabilities and results of operations of the Bank's subsidiaries, all of which are wholly owned:
- Mercantile Canada Finance B.V.
- The Mercantile Bank of Canada International N.V.
- MBC Financial Services Corporation
- Mercantile Leasing Limited
- MBC Mortgage Corporation
- MBC Realty Corporation

The consolidated financial statements also include the Bank's proportionate share of all assets and liabilities of a joint venture formed to construct and operate Place Mercantile, the Bank's future headquarters in Montreal.

Income Recognition
All significant revenues and expenses are accounted for on the accrual basis of accounting. Accrued interest on current loans, securities and deposits is recorded in the Consolidated Statement of Assets and Liabilities in other assets and liabilities.

Securities
Fixed term securities held in the investment account are carried at amortized cost while other securities are carried at cost. Trading account securities are carried at market value.

Realized gains and losses on the disposal of fixed term securities are amortized on a straight-line basis over a period of five years. The unamortized balances of realized gains and losses are included in other assets or other liabilities in the Consolidated Statement of Assets and Liabilities. Realized gains and losses on the disposal of Government of Canada Treasury Bills and equity securities are reflected in the Consolidated Statement of Income in the period in which they are incurred. Gains and losses on securities in the trading account resulting from disposals and revaluations to market are recognized in full as they occur in the Consolidated Statement of Income.

Loans
Loans are recorded at estimated realizable value. Increases or decreases in specific provisions required to adjust loans to estimated realizable value together with write-offs and cash recoveries on loans previously written off comprise the loan loss experience for the year.

The provision for loan losses included in the Consolidated Statement of Income results from applying a five-year moving weighted average ratio of loan loss experience to outstanding eligible loans at year-end. The method of calculation and the definition of eligible loans are prescribed in regulations issued by the Minister of Finance.

The difference between the actual loan loss experience for the year and the provision for losses is charged or credited in the Consolidated Statement of Appropriations for Contingencies.

Loans are determined to be non-current when the borrower has not paid interest in accordance with the loan agreement for 90 days or more or where the Bank has taken realization proceedings or where the Bank's management is of the opinion that the loan should be regarded as non-current. Non-current loans are placed on a non-accrual basis and unpaid interest accrued on the loan is reversed and charged against current earnings.

Appropriations for Contingencies
The Bank maintains an Appropriations for Contingencies account the purpose of which is to provide for unforeseen future losses in respect of loans. This appropriation is in addition to provisions against specific loans.

The account consists of two portions, tax-allowable and tax-paid. Transactions through the tax-allowable portion include the net loan loss experience and the provision for loan losses charged to the Consolidated Statement of Income in respect of the Bank itself, together with transfers from retained earnings. The tax-allowable portion, which is not subject to tax, is limited to an amount equal to 1½% of the aggregate book value of the eligible assets net of specific provisions in respect of these assets up to a value of $2 billion and 1% of the remainder of eligible assets.

Transactions through the tax-paid portion include the net loan loss experience and the provision for loan losses charged to the Consolidated Statement of Income in respect of subsidiaries of the Bank, together with any transfers upon which income tax has been paid. In addition the Bank may make transfers from retained earnings to tax-paid appropriations as deemed appropriate.

Land, Buildings and Equipment
Land is recorded at cost while buildings and equipment are carried at cost less accumulated depreciation. Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Gains and losses on the disposal of fixed assets are recorded in the Consolidated Statement of Income.

Translation of Foreign Currencies
Assets and liabilities in foreign currencies are translated to Canadian dollars using exchange rates at year-end. Revenue and expenses in foreign currencies are translated to Canadian dollars at the average exchange rates prevailing throughout the year.

Foreign exchange positions are hedged as much as possible by forward exchange contracts. Gains and losses on translation of foreign currencies and on revaluation of the unhedged foreign currency position are reported in other income in the Consolidated Statement of Income.

Income Taxes
Deferred income taxes are provided to recognize the effect of items of income and expense that may affect income for tax purposes in a period different from that in which they affect income for accounting and reporting purposes. Income taxes provided represent taxes applicable to the income reported in the Consolidated Statement of Income and to the tax-allowable appropriations from retained earnings recorded in the Consolidated Statement of Appropriations for Contingencies regardless of when such taxes are actually paid. When the Bank is virtually certain of realizing a future income tax reduction from a loss for tax purposes incurred in the reporting period, such future income tax reduction is recognized in the accounts in the current year. Deferred income taxes are recorded in other assets or other liabilities, as applicable. Income taxes are not provided on unremitted income of foreign subsidiaries as such income is reinvested abroad.

Acceptances
The contingent liability of the Bank under acceptances is reported as a liability in the Consolidated Statement of Assets and Liabilities. The Bank has offsetting claims against its customers in the event of calls on these commitments, which are reported as assets.

Pension Plan
Actuarial valuations of the Bank's pension plan are made at least every three years. Pension costs are charged in the Consolidated Statement of Income.

2. Securities

	Maturity						
	Within 1 Year	Over 1 Yr. to 3 Yrs.	Over 3 Yrs. to 5 Yrs.	Over 5 Yrs. to 10 Yrs.	Over 10 Yrs.	**Total 1982**	Total 1981
Investment Securities Issued or Guaranteed by Gov't of Canada	$153,008	$ 2,010	$ 364	$ —	$ 33,730	**$189,112**	$245,379
Other Securities:							
Debt Issues	109,467	1,686	—	810	19,792	**131,755**	144,675
Equity Issues	10,355	11,020	10,000	97,272	21,755	**150,402**	155,060
	272,830	14,716	10,364	98,082	75,277	**471,269**	545,114
Trading Securities	14,731	—	—	—	4,920	**19,651**	—
Total Securities	**$287,561**	**$14,716**	**$10,364**	**$98,082**	**$80,197**	**$490,920**	$545,114
Other Securities include:							
Income Debentures						**$ 9,560**	$ 18,917
Term Preferred Shares						**149,741**	154,308
Total						**$159,301**	$173,225

3. Land, Buildings and Equipment	1982			1981
	Cost	**Accumulated depreciation**	**Net Book value**	Net Book value
Land	**$ 1,519**	**$ —**	**$ 1,519**	$ 1,379
Buildings	**19,454**	**—**	**19,454**	5,070
Equipment	**8,645**	**3,130**	**5,515**	4,526
Leasehold improvements	**7,633**	**2,086**	**5,547**	4,101
	$37,251	**$5,216**	**$32,035**	$15,076

4. Deposits	1982	1981
Deposits by Canada	**$ 1,956**	$ 2,521
Deposits by provinces	**39,001**	4,403
Deposits by banks	**1,285,666**	1,090,279
Deposits by individuals	**142,392**	85,653
Other deposits	**2,336,772**	2,360,953
	$3,805,787	$3,543,809

5. Debentures	1982	1981
The debentures are subordinated to the claims of depositors and other creditors and consist of:		
9% debentures due January 3, 1997, redeemable on January 3, 1987 if option exercised between January 15 and July 15, 1986 (authorized $30,000,000)	**$ 30,000**	$ 30,000
Variable rate debentures due October 4, 1995 with interest payable at a rate per annum equal to Mercantile Bank Prime less one half of one per cent, redeemable on or after October 5, 1986 at the option of the Bank (authorized $15,000,000)	**15,000**	15,000
	$ 45,000	$ 45,000

6. Capital Stock

The authorized share capital of the Bank consists of 20,000,000 common shares of the par value of $5 each, of which 8,000,000 are issued and outstanding; 5,000,000 class A preferred shares without nominal or par value, issuable in series for an aggregate consideration not exceeding $100 million, of which 1,200,000 U.S. $2.6875 Cumulative Redeemable Class A Preferred Shares, Series 1 were issued on October 28, 1982 for an aggregate cash consideration of U.S. $30,000,000; and 5,000,000 class B preferred shares without nominal or par value, issuable in series for an aggregate consideration not exceeding $100 million, none of which are outstanding.

The U.S. $2.6875 Cumulative Redeemable Class A Preferred Shares, Series 1 have a stated value of U.S. $25.00 and are retractable at the option of the holder on December 31, 1992 at U.S. $25.00 per share. The shares are redeemable after December 31, 1989 at prices commencing at U.S. $26.20 per share and declining by U.S. $0.40 each year to U.S. $25.00 per share on January 1, 1993. The holders of the Series 1 Preferred Shares have the right to elect to receive any dividend, retraction or redemption payment in the Canadian dollar equivalent thereof.

7. Provision for Income Taxes

The aggregate provision for income taxes is made up as follows:

	1982	1981
Consolidated Statement of Income		
Current	**$ 4,037**	$12,867
Deferred	**(13,410)**	(3,969)
Reduction of Accumulated deferred tax debit	**2,116**	—
	(7,257)	8,898
Consolidated Statement of Changes in Shareholders' Equity		
Deferred	**(583)**	71
	$ (7,840)	$ 8,969

Other assets include a deferred tax debit in the amount of $15,169,000 in recognition of both timing differences and losses carried forward for tax purposes. The reduction of the accumulated deferred tax debit results from the elimination of the potential tax benefits associated with the Bank's treatment of foreign tax credits in 1981. These potential tax benefits were not realized as they required the Bank to have Canadian taxable income in 1982 and such taxable income did not materialize.

8. Long-term Commitments for Leases

Rental expense under long-term non-cancellable operating leases for premises and equipment for the year ended October 31, 1982 was $4,814,000 (1981 – $4,442,000). Future rental commitments for premises and equipment involving annual rentals in excess of $25,000 per unit are estimated to be as follows:

	Buildings	Equipment	Total
1983	$ 3,945	$285	$ 4,230
1984	3,670	196	3,866
1985	3,407	—	3,407
1986	2,958	—	2,958
1987 and thereafter	9,895	—	9,895
	$23,875	$481	$24,356

9. Pension Costs

Total costs in respect of the Bank's employee pension plan for the year ended October 31, 1982 amounted to $232,000 (1981 – $410,000). The plan covers all employees of the Bank in Canada after one year of service and was fully funded at October 31, 1981, the date of the last actuarial valuation.

10. Contingent Liability

The Bank's potential liability under guarantees and letters of credit amounted to $126,900,000 in 1982 (1981 – $92,549,000).

11. Investment in Joint Venture and Commitments

The Bank has a 50.01% interest in a joint venture formed with Louis Donolo Inc. to construct and operate Place Mercantile, the Bank's future headquarters in Montreal. The Bank's share of the costs of the Place Mercantile project to October 31, 1982 amounts to $17,630,000 and is estimated to total $27,500,000. Completion of the project is expected in the spring of 1983.

12. Related Party Transactions

Citibank N.A. owns 24.2% of the outstanding common shares of the Bank. In the normal course of its business the Bank deals with Citibank on an arm's length basis.

13. Impact of Bank Act Revision

The accounting policies followed in the preparation of the financial statements were changed as of November 1, 1981. These financial statements give retroactive application to the new accounting policies issued under authority of the Minister of Finance pursuant to the Bank Act. The changes in net income, capital and reserves resulting from the Bank Act revision are summarized as follows:

	October 31, 1981
Net Income	
Originally reported	$ 30,203
Restated	28,280
Change	$ (1,923)
Consolidation of subsidiaries	$ (224)
Appropriations account adjustments	(1,699)
Change	$ (1,923)
Net income per share	
Originally reported	$ 3.78
Restated	$ 3.54
Capital and Reserves	
Originally reported:	
Accumulated appropriations for losses	$ 39,731
Capital stock	40,000
Rest account	68,000
Undivided profits	144
	$ 147,875
Restated:	
Appropriations for contingencies	$ 12,531
Capital stock	40,000
Contributed surplus	11,950
Retained earnings	83,844
	$ 148,325
Change	$ 450
Unamortized portion of gains and losses on disposal of fixed maturity securities	$ 382
Consolidation of non banking subsidiaries	68
Change	$ 450

Assets and liabilities and income of the Leasing and Mortgage subsidiaries are included in accordance with section 215(3)(e) of the Bank Act.

Mercantile Leasing Limited
Statement of Assets and Liabilities

As at October 31, 1982
(thousands of dollars)

Assets	1982	1981	Liabilities	1982	1981
Cash	**$ 1**	$ 1	Mercantile Bank of Canada	**$23,971**	$27,991
Receivable under lease agreements less unearned finance income of $19,019 (1981 – $22,511)	**29,609**	30,153	Deferred income taxes	**3,840**	2,144
			Capital stock fully paid (10 shares of no par value)	**1**	1
Other assets	**—**	1	Retained earnings	**1,798**	19
	$29,610	$30,155		**$29,610**	$30,155

Statement of Income

Year ended October 31, 1982
(thousands of dollars)

	1982	1981
Income from lease financing	**$ 3,492**	$ 3,781
Other expenses	**17**	77
Net income before provision for income taxes	**3,475**	3,704
Provision for income taxes	**1,696**	1,852
Net income for the year	**$ 1,779**	$ 1,852

Notes

1. The Mercantile Bank of Canada owns the entire capital stock of Mercantile Leasing Limited. This investment is carried on the books of the Bank at $1,000.

2. Unearned lease income representing the excess of the gross amount receivable on lease contracts over the cost of the assets leased, net of estimated residual value, is recorded when a lease is executed and taken into income in a manner that produces a constant rate of return on the net investment.

MBC Mortgage Corporation
Statement of Assets and Liabilities
As at October 31, 1982
(thousands of dollars)

Assets	1982	1981	Liabilities	1982	1981
Cash	**$ —**	$ 3,330	Notes payable	**$27,400**	$11,300
Deposits with banks	**1,496**	10,000	Other liabilities	**1,562**	598
Mortgage Loans	**37,515**	8,600	Capital stock: Authorized 100,000 shares of $100 par value each, issued and fully paid	**10,000**	10,000
Other assets	**12**	17	Retained earnings	**61**	49
	$39,023	$21,947		**$39,023**	$21,947

Statement of Income
Year ended October 31, 1982
(thousands of dollars)

	1982	1981
Interest Income		
Income from loans	**$ 3,971**	$ 407
Income from deposits with banks	**255**	269
Total interest income	**4,226**	676
Interest Expense		
Interest on notes	**3,558**	468
Interest on liabilities other than notes	**498**	93
Total interest expense	**4,056**	561
Net interest income	**170**	115
Other expenses	**146**	17
Net income before provisions for income taxes	**24**	98
Provision for income taxes	**12**	49
Net income for the year	**$ 12**	$ 49

Note
The Mercantile Bank of Canada owns the entire capital stock of MBC Mortgage Corporation with the exception of the directors' qualifying shares. The investment is carried on the books of the Bank at $9,996,500.

Six-year statistical review

Consolidated Statement of Assets and Liabilities

(thousands of dollars)

As at October 31	**1982**	1981	1980	1979	1978	1977
Assets						
Cash Resources						
Cash and deposits with Bank of Canada	**$ 151,348**	$ 170,391	$ 129,956	$ 98,132	$ 75,901	$ 4,053
Deposits with other banks	**196,281**	209,711	444,610	324,833	79,597	61,926
Cheques and other items in transit, net	**—**	—	—	—	33,717	47,592
	347,629	380,102	574,566	422,965	189,215	113,571
Securities						
Issued or guaranteed by Canada	**208,763**	245,379	333,315	104,069	109,989	99,756
Issued or guaranteed by provinces and municipal or school corporations	**—**	—	—	99	—	7,090
Other securities	**282,157**	299,735	200,365	198,467	232,157	226,353
	490,920	545,114	533,680	302,635	342,146	333,199
Loans						
Day, call and short loans to investment dealers and brokers, secured	**—**	—	35,000	104,000	66,350	151,927
Loans to banks	**71,218**	86,161	88,050	39,914	13,909	14,551
Mortgage loans	**98,594**	83,906	84,153	80,823	84,150	100,254
Other loans	**3,102,222**	2,748,926	2,572,125	2,033,434	1,535,284	1,277,478
	3,272,034	2,918,993	2,779,328	2,258,171	1,699,693	1,544,210
Other						
Customers' liability under acceptances	**121,751**	51,995	72,672	18,737	9,657	7,498
Land, buildings and equipment	**32,035**	15,076	7,533	5,099	4,585	4,246
Other assets	**73,563**	102,954	106,891	44,905	36,545	21,550
	227,349	170,025	187,096	68,741	50,787	33,294
	$4,337,932	$4,014,234	$4,074,670	$3,052,512	$2,281,841	$2,024,274

Liabilities						
Deposits						
Payable on demand	**$ 68,988**	$ 81,042	$ 114,233	$ 76,364	$ 75,295	$ 88,373
Payable after notice	**5,017**	4,365	5,106	4,541	3,940	4,155
Payable on a fixed date	**3,731,782**	3,458,402	3,522,765	2,747,056	2,047,703	1,787,235
	3,805,787	3,543,809	3,642,104	2,827,961	2,126,938	1,880,263
Other						
Cheques and other items in transit, net	**87,570**	154,935	76,990	18,436	—	—
Acceptances	**121,751**	51,995	72,672	18,737	9,657	7,498
Other liabilities	**101,866**	70,170	105,214	43,157	19,874	22,042
	311,187	277,100	254,876	80,330	29,531	29,540
Subordinated Debt						
Bank debentures	**45,000**	45,000	42,000	30,000	30,000	30,000
	45,000	45,000	42,000	30,000	30,000	30,000
Capital and Reserves						
Appropriations for contingencies	**12,215**	12,531	21,391	16,196	15,721	16,589
Shareholders' Equity						
Capital stock						
Class A Preferred shares	**36,720**	—	—	—	—	—
Common shares	**40,000**	40,000	40,000	40,000	40,000	40,000
Contributed surplus	**11,950**	11,950	11,950	11,950	11,950	11,950
Retained earnings	**75,073**	83,844	62,349	46,075	27,701	15,932
	175,958	148,325	135,690	114,221	95,372	84,471
	$4,337,932	$4,014,234	$4,074,670	$3,052,512	$2,281,841	$2,024,274

Six-year statistical review
Consolidated Statement of Income
(thousands of dollars)

For the year ended October 31	**1982**	1981	1980	1979	1978	1977
Interest Income						
Income from loans, excluding leases	**$ 573,532**	$ 602,388	$ 405,682	$ 261,877	$ 160,190	$ 133,211
Income from lease financing	**3,492**	3,781	328	—	—	—
Income from securities	**50,816**	52,844	36,213	30,787	25,839	23,425
Income from deposits with banks	**16,016**	20,442	21,110	13,082	2,365	1,839
Total interest income, including dividends	**643,856**	679,455	463,333	305,746	188,394	158,475
Interest Expense						
Interest on deposits	**583,364**	601,657	396,286	257,817	147,248	127,895
Interest on bank debentures	**5,196**	5,490	2,906	2,747	2,747	2,217
Interest on liabilities other than deposits	**860**	269	91	30	190	62
Total interest expense	**589,420**	607,416	399,283	260,594	150,185	130,174
Net interest income	**54,436**	72,039	64,050	45,152	38,209	28,301
Provision for loan losses	**15,333**	9,122	7,385	6,021	4,977	3,851
Net interest income after loan loss provision	**39,103**	62,917	56,665	39,131	33,232	24,450
Other income	**24,457**	21,527	16,455	14,212	8,708	9,155
Net interest and other income	**63,560**	84,444	73,120	53,343	41,940	33,605
Non-Interest Expenses						
Salaries	**23,651**	21,012	14,877	12,313	9,325	7,990
Pension contributions and other staff benefits	**4,374**	3,646	2,171	595	749	511
Premises and equipment expenses, including depreciation	**7,328**	5,622	4,467	3,467	3,098	2,725
Other expenses	**19,997**	16,986	11,111	9,177	6,827	5,463
Total non-interest expenses	**55,350**	47,266	32,626	25,552	19,999	16,689
Net income before provision for income taxes	**8,210**	37,178	40,494	27,791	21,941	16,916
Provision for income taxes	**(7,257)**	8,898	15,276	4,647	3,836	2,947
Net income for the year	**$ 15,467**	$ 28,280	$ 25,218	$ 23,144	$ 18,105	$ 13,969
Average number of common shares outstanding	**8,000,000**	8,000,000	8,000,000	8,000,000	8,000,000	8,000,000
Net income per common share	**$ 1.93**	$ 3.54	$ 3.15	$ 2.89	$ 2.26	$ 1.75
Dividends declared	**$ 8,640**	$ 7,920	$ 7,200	$ 6,560	$ 6,000	$ 6,000
Dividends per common share	**$ 1.08**	$ 0.99	$ 0.90	$ 0.82	$ 0.75	$ 0.75

Six-year statistical review

Consolidated Statement of Appropriations for Contingencies

(thousands of dollars)

For the year ended October 31	**1982**	1981	1980	1979	1978	1977
Balance at beginning of year	**$ 12,531**	$ 21,391	$ 16,196	$ 15,721	$ 16,589	$ 13,325
Deduct: net loss experience on loans	**(30,649)**	(16,776)	(6,183)	(3,237)	(6,404)	(5,440)
Add: provision for loan losses included in the Consolidated Statement of Income	**15,333**	9,122	7,385	6,021	4,977	3,851
Transfer (to) from retained earnings	**15,000**	(1,206)	3,993	(2,309)	559	4,853
Balance at end of year	**$ 12,215**	$ 12,531	$ 21,391	$ 16,196	$ 15,721	$ 16,589

Consolidated Statement of Changes in Shareholders' Equity

(thousands of dollars)

For the year ended October 31	**1982**	1981	1980	1979	1978	1977
Capital Stock						
Balance at beginning of year Common shares	**$ 40,000**	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Increase during the year Preferred shares	**36,720**	—	—	—	—	—
Balance at end of year	**$ 76,720**	$ 40,000	$ 40,000	$ 40,000	$ 40,000	$ 40,000
Contributed Surplus						
Balance at beginning and end of year	**$ 11,950**	$ 11,950	$ 11,950	$ 11,950	$ 11,950	$ 11,950
Retained Earnings						
Balance at beginning of year	**$ 83,844**	$ 62,349	$ 46,075	$ 27,701	$ 15,932	$ 10,497
Net income for the year	**15,467**	28,280	25,218	23,144	18,105	13,969
Dividends – common shares	**(8,640)**	(7,920)	(7,200)	(6,560)	(6,000)	(6,000)
Share issue expenses net of tax	**(598)**	—	—	—	—	—
Transfer (to) from appropriations for contingencies	**(15,000)**	1,206	(3,993)	2,309	(559)	(4,853)
Income taxes related to the above transfer	**—**	(71)	2,249	(519)	223	2,319
Balance at end of year	**$ 75,073**	$ 83,844	$ 62,349	$ 46,075	$ 27,701	$ 15,932

Changes arising from the 1980 Bank Act
(thousands of dollars)

October 31	1981	1980	1979	1978	1977
Net Income					
Originally reported	$ 30,203	$ 24,921	$ 23,328	$17,980	$14,045
Restated	28,280	25,218	23,144	18,105	13,969
Change	$ (1,923)	$ 297	$ (184)	$ 125	$ (76)
Consolidation of subsidiaries	$ (224)	$ 292	—	—	—
Appropriations account adjustments	(1,699)	5	$ (184)	$ 125	$ (76)
Change	$ (1,923)	$ 297	$ (184)	$ 125	$ (76)
Net income per share					
Originally reported	$3.78	$3.12	$2.92	$2.25	$1.76
Restated	$3.54	$3.15	$2.89	$2.26	$1.75
Capital and Reserves					
Originally reported:					
Accumulated appropriations for losses	$ 39,731	$ 39,828	$ 28,383	$19,438	$16,597
Capital stock	40,000	40,000	40,000	40,000	40,000
Rest account	68,000	55,000	45,000	35,000	27,000
Undivided profits	144	61	140	572	992
	$147,875	$134,889	$113,523	$95,010	$84,589
Restated:					
Appropriations for contingencies	$ 12,531	$ 21,391	$ 16,196	$15,721	$16,589
Capital stock	40,000	40,000	40,000	40,000	40,000
Contributed surplus	11,950	11,950	11,950	11,950	11,950
Retained earnings	83,844	62,349	46,075	27,701	15,932
	$148,325	$135,690	$114,221	$95,372	$84,471
Change	$ 450	$ 801	$ 698	$ 362	$ (118)
Unamortized portion of gains and losses on disposal of fixed maturity securities	$ 382	$ 509	$ 698	$ 362	$ (161)
Reversal of specific provision reducing securities to market	—	—	—	—	43
Consolidation of non-banking subsidiaries	68	292	—	—	—
Change	$ 450	$ 801	$ 698	$ 362	$ (118)

Twenty-Ninth Annual Meeting of the Shareholders

Minutes of the Twenty-Ninth Annual Meeting of the Shareholders of The Mercantile Bank of Canada held at Le Château Champlain, Montreal, on Wednesday, the 12th day of January 1983, at 10:00 o'clock of the forenoon.

The Chairman of the Bank, Mr. R.L. Davidson, presided and the Secretary, Miss V.M. Henderson, acted as Secretary of the Meeting. In opening the Meeting, the Chairman introduced the officers present with him on the platform and also the Directors present at the Meeting.

The Notice of the Meeting having been sent to all Shareholders entitled to receive it and a quorum being reported present, the Chairman declared the Meeting to be duly convened and constituted. He then explained the voting procedures, indicating that each resolution must be passed by a majority of the votes cast.

With the consent of the Meeting, the Chairman appointed Mr. J.A. Moore and Ms. D. C. Orr, both of The Royal Trust Company, to act as Scrutineers.

Upon motion of Mr. M. Franklin, seconded by Mr. A. Bachand and carried, the Minutes of the last Annual Meeting held on January 13, 1982 were taken as read and confirmed.

The Chairman then asked the Secretary to read the Directors' Report to the Shareholders, omitting the Annual Statement and the Auditors' Report as these had already been sent to all Shareholders and copies were in the hands of those present. He indicated that the motion to adopt the Directors' Report would be made later in the Meeting.

Directors' Report

Your Directors take pleasure in submitting to you the consolidated Annual Statement of the Bank for the year ended October 31, 1982 together with the Auditors' Report thereon. As required by the Bank Act, Statements of Assets and Liabilities and of Income for two of the Bank's subsidiaries, Mercantile Leasing Limited and MBC Mortgage Corporation, are included as well.

During the year the Bank's geographical structure was changed in a few areas. The branch in Saint John, New Brunswick, was closed and the Representative Offices in Dallas, Denver and Los Angeles were converted to branches of MBC Financial Services Corporation, the Bank's U.S. subsidiary.

The move to the Bank's new Montreal premises, Place Mercantile, is scheduled to take place gradually over the next several weeks.

The Directors record their sincere appreciation to all members of the staff for their loyal and efficient services to the Bank during the past difficult year.

R.L. Davidson
Chairman, President and
Chief Executive Officer

Montreal, January 12, 1983

The Chairman then addressed the Meeting, following which Mr. R.M. Roy, Executive Vice-President, Corporate Services, delivered the report on the Bank's operations.

(The Chairman's address is reproduced on page 2; Mr. Roy's report appears as "The Mercantile's Year in Review" on page 13.)

It was moved by the Chairman and seconded by Mr. H.A. Benham:

THAT the Directors' Report to the Shareholders, including the Annual Statement and the Auditors' Report thereon, in respect of the Bank's fiscal year ended October 31, 1982, be and the same is hereby approved and adopted.

The motion was put to the Meeting and carried on a show of hands.

Directors

The Chairman said that it was proposed that the present Directors, all of whom were eligible, be re-elected. At the Chairman's request, the Secretary read the names of the proposed Directors, namely: R.J. Abercrombie, A. Bachand, H.A. Benham, W.E. Bergen, G.A. Costanzo, R.L. Davidson, C.W. Desch, M. Franklin, J.T. Johnson, M. Perron, W.R. Rhodes, K. Rotenberg, H.A. Steinberg, H.H. Stikeman, J.H. Taylor and E.D.H. Wilkinson.

Mr. A.C. Van de Mosselaer then nominated the persons whose names had been read by the Secretary for election as Directors.

There being no further nominations, it was moved by Mr. M.M. Christens and seconded by Mrs. T. Tomac:

THAT the nominations be closed and that each of the persons nominated be elected a Director of the Bank for the ensuing year.

The motion was put to the Meeting and carried on a show of hands.

Auditors

It was next moved by Mr. R.J. Abercrombie and seconded by Mr. H.A. Steinberg:

THAT Peat, Marwick, Mitchell & Cie and Thorne Riddell be appointed Auditors of the Bank until the next Annual Meeting and that their remuneration in that capacity be not more than $151,000, which amount shall include remuneration for their services as Auditors of the Bank's consolidated domestic subsidiaries.

The motion was put to the Meeting and carried on a show of hands.

The Meeting then terminated.

R.L. Davidson
Chairman

V.M. Henderson
Secretary

Board of Directors

Robert L. Davidson
Montreal
Chairman, President and
Chief Executive Officer
of the Bank

André Bachand
Montreal
Consultant
Université de Montréal
Vice-President of the Bank

Hugh A. Benham
Winnipeg
Investment Counsel
Vice-President of the Bank

G.A. Costanzo
Vero Beach, Florida
Company Director
Vice-President of the Bank

Robin J. Abercrombie
Vancouver
President
Roberts Creek
Resources Ltd.

William E. Bergen
Saskatoon
Consultant

Carl W. Desch
New York
Company Director

Mitchell Franklin
Saint John, N.B.
Chairman
Franklin Enterprises
Limited

John T. Johnson, Q.C.
Toronto
Partner
Borden & Elliot

Michel Perron
La Sarre, Quebec
Chairman and
Chief Executive Officer
Normick Perron Inc.

William R. Rhodes
New York
Senior Vice-President
Citibank, N.A.

Kenneth Rotenberg
Toronto
Vice-Chairman and Chief
Executive Officer
Rostland Corporation

H. Arnold Steinberg
Montreal
Executive Vice-President
Finance & Development
Steinberg Inc.

H. Heward Stikeman, Q.C.
Montreal
Senior Partner
Stikeman, Elliott, Tamaki,
Mercier & Robb

John H. Taylor
Toronto
Chairman
North American Life
Assurance Company

Edward D.H. Wilkinson, Q.C.
Vancouver
Partner
Russell & DuMoulin

Executive Officers

Head Office

Chairman, President and Chief Executive Officer
Robert L. Davidson

Executive Vice-Presidents
Nathan Bossen
Finance

Bernard J. Goyette
Corporate Banking

Raymond M. Roy
Corporate Services

Senior Vice-President
J. Scott Shelly
Credit Policy

Vice-Presidents
Walter N. Ancuta
General Counsel

Gillian Barnes
Personnel Policy

Maurice M. Christens
Chief Inspector

Daniel C. Ghikadis
Real Estate

Velma M. Henderson
Corporate Secretary

David C. Hodgson
Financial Services

Charles A. Hughes
Operations Policy &
Data Processing

John J. McLaughlin
Treasury

Luc Pelland
Comptroller

Jean A. Plamondon
Corporate Planning

Ronald W. Price
Taxation

Heinz K. Weindler
Chief Accountant

Myron Zbyradowski
Foreign Exchange Trading

Eastern Division

Senior Vice-President
Larry Pirnak

Vice-Presidents
Robert Massicotte
Credit

J. Raymond R. McManus
Montreal

Michel Létourneau
Quebec

Central Division

Senior Vice-President
F. Barrie Usher

Vice-Presidents
William McLaney
Credit

John O. Kiervin
Toronto

Geza Zarand
Winnipeg

Western Division

Senior Vice-President
Lloyd M. Craig

Vice-Presidents
James R. Booth
Credit

F. Derek McLearon
Edmonton

Alan J. Pyle
Calgary

Lloyd D. McDermid
Energy Group
Calgary

Kevin J. McKenna
Vancouver

U.S.A.

MBC Financial Services Corporation

President
James S. Parsons

Senior Vice-Presidents
Kenneth V. Cooper
Real Estate

J. Michael McMahon
Corporate Finance

J. Robert Fraser
Credit

Vice-Presidents
D. Anthony McColl
Secretary

Laurier M. Carpentier
Dallas

Robert H. Beriault
Denver

Gregory H. Finch
Los Angeles

Offices of the Bank

Head Office

Place Mercantile
770 Sherbrooke Street W.
Montreal, Quebec
(514) 848-6000

Canadian Divisions

Eastern

Headquarters

Suite 2010
1010 Sherbrooke Street W.
Montreal, Quebec
(514) 871-2541

Branches

Halifax
1681 Granville Street
(902) 429-3030

Quebec City
580 Grande Allée E.
(418) 647-2921

Montreal
752 Sherbrooke Street W.
(514) 848-6600

Ottawa
350 Sparks Street
(613) 238-8385

Central

Headquarters

120 Adelaide Street W.
Toronto, Ontario
(416) 361-7228

Branches

Toronto
120 Adelaide Street W.
(416) 361-7200

Hamilton
47 James Street S.
(416) 526-0670

Kitchener
22 Frederick Street
(519) 579-4680

London
272 Dundas Street
(519) 679-0901

Winnipeg
305 Broadway Avenue
(204) 944-9355

Regina
1863 Victoria Avenue
(306) 525-9161

Representative Office

Mississauga
55 City Centre Drive
(416) 276-9464

Western

Headquarters

Board of Trade Tower
Suite 1103
1177 West Hastings Street
Vancouver
British Columbia
(604) 669-2646

Branches

Edmonton
10130 – 103 Street
(403) 421-7776

Calgary
441, 5th Avenue, S.W.
(403) 262-6961

Vancouver
1177 West Hastings Street
(604) 684-8411

International Division

120 Adelaide Street W.
Toronto, Ontario
(416) 361-7350

Energy Group

Calgary
Suite 1920
639, 5th Avenue, S.W.
(403) 262-6961

Financial Services Group

Montreal
Place Mercantile
16th floor
770 Sherbrooke Street W.
(514) 848-6150

Toronto
3rd floor
120 Adelaide Street W.
(416) 361-7200

Calgary
441, 5th Avenue, S.W.
(403) 233-0711

Vancouver
1177 West Hastings Street
(604) 684-8411

Subsidiaries

U.S.A.

MBC Financial Services
Corporation

Executive Offices

Suite 400
2501 Cedar Springs Road
Dallas, Texas
(214) 871-1200

Branches

Dallas, Texas
Plaza of the Americas
Suite 1660
700 North Pearl Boulevard
(214) 871-1270

Denver, Colorado
Suite 1600 N
600, Seventeenth Street
(303) 573-8111

Los Angeles, California
Atlantic Richfield Plaza
Suite 383
515 South Flower Street
(213) 488-0166

Canada

MBC Mortgage Corporation
770 Sherbrooke Street W.
Montreal, Quebec
(514) 848-6000

MBC Realty Corporation
770 Sherbrooke Street W.
Montreal, Quebec
(514) 848-6000

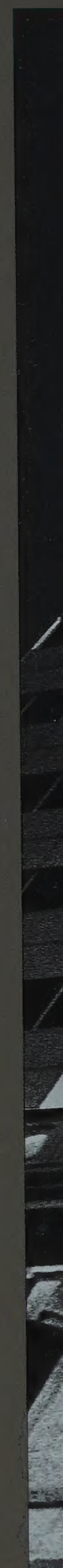
Mercantile Leasing Limited
770 Sherbrooke Street W.
Montreal, Quebec
(514) 848-6000

Other Countries

Mercantile Canada
Finance B.V.
Keizersgracht 560-562
Amsterdam
The Netherlands

The Mercantile Bank
of Canada International
N.V.
19 Windstraat
Oranjestad, Aruba
Netherlands Antilles
Tel.: 26516

The Mercantile Bank of Canada
Place Mercantile
770 Sherbrooke Street West
Montreal, Quebec
Canada
H3A 1G1



Printed in Canada